The Kroger Co. Annual Report 1976

The Kroger Co.

Contents

THE KROGER CO. is the sixth largest retailing company in the United States as ranked by total sales The Company operates Kroger Food Stores, the country's third largest supermarket chain, with 1173 stores in 21 states at the end of 1976. As a result of an aggressive stores improvement program, more than 18 million square feet, or 67.5% of supermarket total square footage, is new or remodeled during the past five years. Most of these improved facilities are in the superstore category — 25,000 to 45,000 square feet in size, with specialty and personal-service departments such as delicatessens, bakeries, wine shops or greeting card departments

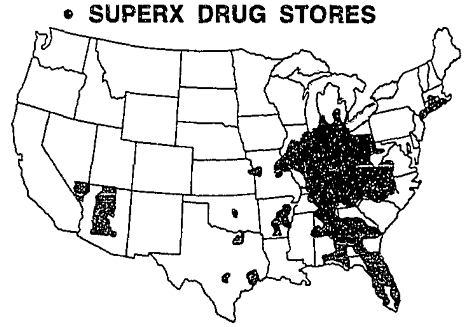
Kroger also manufactures and processes food for sale by these supermarkets, a tradition which began before the turn of the century. The Company operates eight regional bakeries and five dairies in addition to a sausage plant, a cheese plant, egg production facilities, egg grading and packing plants, a candy plant, and a general processing plant where such products as coffee, tea, peanut butter, preserves, salad dressings, spices, nuts and other items are processed. Other private label products are prepared for sale in Kroger stores by leading food processors throughout the country.

SupeRx Drug Stores, with 558 drug stores in 24 states at the close of 1976, is one of the country's largest drug store chains Although SupeRx operates a majority of its drug stores in states where Kroger Food Stores are located, drug stores are also located in Arizona, Connecticut, Florida, New Jersey, New York and Nevada.

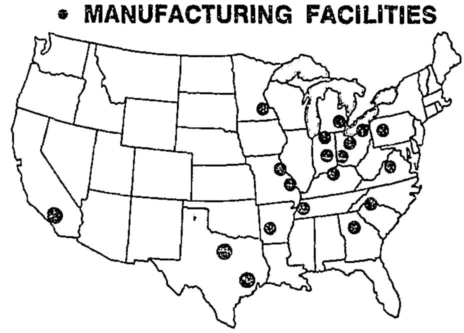
Top Value Enterprises is the nation's second largest trading stamp company, and also is active in the fields of business incentives, promotional continuity programs, travel services, and amusement parks.

• KROGER FOOD STORES

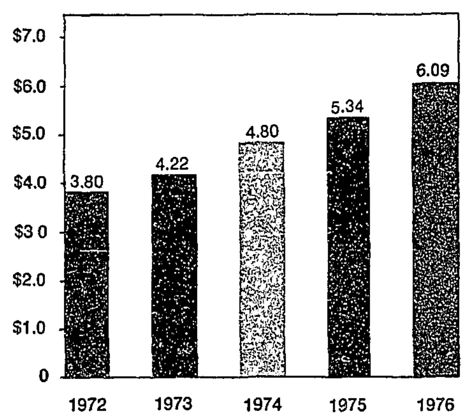
• SUPERX DRUG STORES



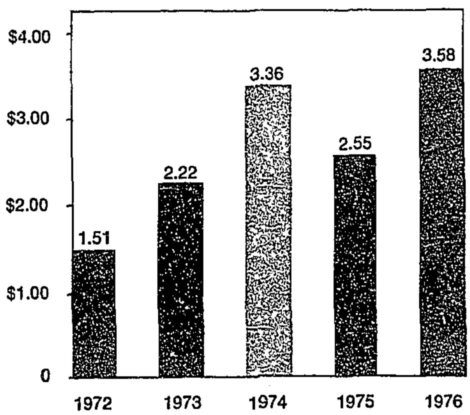
• MANUFACTURING FACILITIES



SALES (Billions)



NET EARNINGS PER SHARE



Financial Highlights

	1976	1975	Change
SALES	$ 6,091,148,822	$ 5,339,224,779	+14.1%
NET EARNINGS	$ 48,330,946	$ 34,441,210	+40.3%
DIVIDENDS PAID	$ 18,576,949	$ 18,298,199	
SHAREOWNERS' EQUITY	$ 457,794,801	$ 425,836,684	+ 7.5%
PER COMMON SHARE			
NET EARNINGS	$ 3.58	$ 2.55	+$1.03
DIVIDENDS	$ 1.38	$ 1.36	+$0.02
SHAREOWNERS' EQUITY	$ 33.89	$ 31.57	+$2.32

A copy of the Company's 1976 report to the Securities and Exchange Commission, Form 10-K, is available to shareowners on request by writing: Irle R. Hicks, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201.

The annual meeting of shareowners will be held at the office of the Company, 1014 Vine Street, Cincinnati, Ohio on April 14, 1977 at 10 a.m.

TRANSFER AGENTS	REGISTRARS
The First National Bank of Cincinnati 111 E. Fourth Street Cincinnati, Ohio 45202	The Central Trust Company Fourth and Vine Streets Cincinnati, Ohio 45202
Bankers Trust Company 2 Broadway New York, New York 10004	Chemical Bank 20 Pine Street New York, New York 10015

New York Stock Exchange Listing — Symbol KR.

To our fellow shareowners:

Kroger sales and earnings increased during 1976, reflecting continued progress and improvement in operations and successful implementation of our merchandising programs. Sales of $6.1 billion were up 14% over the previous year. Earnings were $48.3 million or $3.58 per share in 1976 versus $34.4 million or $2.55 per share in 1975. While this is an accomplishment of which we can be justifiably proud, we must continue to improve profitability in line with the significantly increased capital investment which we have made in our business

The regular quarterly dividend on common stock has been increased to 36 cents per share. As a result of this increase, the indicated annual dividend rate will be $1.44, up from $1 36 We are pleased to be able to recognize through this increase the 42,508 Kroger shareowners who have invested in our company.

Kroger today is recognized by consumers as the leading supermarket merchant in more markets than at any time in our history. We have earned this recognition from customers by doing a better job — starting with the store facility and continuing to every aspect of operating the store and serving customers.

The improvement in earnings came from our food business — the performance of maturing superstores, the success of our improved perishable departments and the continued growth in sales of Kroger private label products

As we have noted in our financial reports throughout the year, it costs substantially more to open a superstore today than was the case with a standard store a few years ago. While this has a temporary adverse impact on earnings, there is a corresponding potential for greater earnings as the store matures and becomes profitable. We are seeing this development in our mature superstores As a group, superstores are continuing to increase their average weekly store sales, showing strength in attracting new customers and providing for broadened merchandising opportunities for all products.

Sales of Kroger's own brand products significantly outpaced the overall sales increase during 1976. This customer acceptance of the quality and value represented by these fine products reflects favorably both on the high standards which form the cornerstone of Kroger's private label philosophy and the effective presentation to the customer Importantly, the larger superstores provide the space to properly display Kroger products to the shopper while at the same time allowing us to expand the assortment of favorite national and regional brands—giving greater choice to the consumer.

In December, $50 million of 8½% Sinking Fund Debentures due December 1, 2001, were sold. The Company expects that the major part of the net proceeds will be used for the store building program.

Our current plans call for capital expenditures of $110 million in 1977. We plan to open 105 supermarkets during the year and to remodel an additional 25 stores. Most of these stores will be in the 30,000 to 35,000 square foot range, although a limited number of 56,000 square foot combination food and drug stores are planned.

Ninety new superstores were opened in 1976. In addition, 33 existing stores were remodeled into superstores. This represents more than three million square feet of attractive, modern selling space with greater profit potential.

At the end of 1976, Kroger operated 1173 supermarkets. More than 18 million square feet or 67 5% of total supermarket square footage is new or remodeled during the past five years. Since 1970 we have closed nearly 800 older or unprofitable stores. Our store improvement program has been a major accomplishment that has required planning and implementation by a dedicated and talented management team at all levels

Our store development is taking place in those areas where we can realize not only the immediate benefits of running better stores—but also where there is long-range growth potential. With adequate representation in a market, we can serve shoppers better and also realize the efficiencies of lower cost of supervision, more awareness of Kroger, and the ability to distribute products more efficiently in a tighter area at less unit cost. Consumers benefit while our earnings potential improves.

SupeRx Drug Stores, which operated at a loss during the first half, progressed during the third quarter and finished with a strong fourth quarter to operate at a profit for the year. The reorganization of the SupeRx management structure to tighten operations for greater efficiency and the strengthening of merchandising for greater effectiveness in the store are expected to produce improved results in 1977.

During 1976, prices of food-at-home as measured by the Consumer Price Index rose only 2 1% for the full year and actually declined at the end of 1976 compared to 1975. This was a major factor in slowing the overall pace of inflation The U.S. Department of Agriculture had predicted that the food price rise would again be modest in 1977. However, adverse weather conditions such as drought and unusually cold weather in major growing areas could change this estimate. At the same time, operating costs—particularly for utilities and labor—continue to rise, and this also exerts pressure on food prices.

I have assumed the responsibilities of president following the resignation of Gene D. Hoffman as president and director.

Let me express my personal appreciation for the communication with many Kroger shareowners as a result of the letters which have been sent with your dividend checks. We are continuing to speak out on public issues which are food industry-related. As shareowners, you have a right to be informed so that you can communicate with the people who form public policy which might affect your investment.

As we view Kroger today and the strides the company has made in meeting our objectives for serving the consumer better and improving results, we look forward to sustained progress in the coming year.

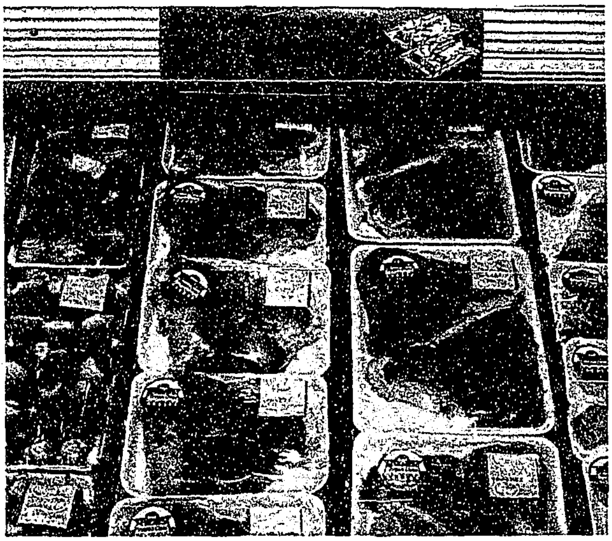
Sincerely,

James P. Herring

James P. Herring
Chairman of the Board

March 7, 1977






Sustained success of a company is achieved only through satisfied customers, satisfied employees and satisfied shareowners. Kroger's activities and programs in 1976 and continuing into 1977 have been keyed toward maintaining and building this recognition and satisfaction.

Focus on the Store

The store is the key to the success of The Kroger Co. The major portion of capital expenditures continues to be spent for retail stores . . . larger, modern stores which are planned for a warm and friendly atmosphere and merchandising appeal, providing the space for variety to suit the needs of all Kroger shoppers and yet which are more efficient to operate.

Favorable construction weather and on-time delivery of materials during 1976 allowed completion of a greater number of Kroger Food Stores than originally anticipated. Ninety new stores were opened during the year and 33 existing stores were remodeled into superstores, while 137 older stores were closed.

At the end of 1976, Kroger operated 1173 supermarkets. More than 18 million square feet or 67.5% of total supermarket square footage, is new or remodeled during the past five years. Current plans call for capital expenditures of $110 million in 1977. We plan to open 105 new supermarkets during the year and to remodel an additional 25 existing stores.

Kroger built more square footage during the 1975-76 period than any other food chain, according to Chain Store Age magazine This aggressive store building program, coupled with the company's consumer-keyed merchandising approach, is helping Kroger to operate effectively in an extremely competitive atmosphere. It also is equipping us to show further progress in the years to come.

It costs nearly four times as much to open a new superstore today as it did to open a standard supermarket 10 years ago. But the potential for correspondingly greater earnings on the investment also is there — and we are seeing this result as superstores mature.

The Consumer . . . Merchandising to Shopper Needs

Kroger today is operating consumer-oriented stores, with emphasis on high quality of perishable products, expanded variety throughout the store, friendly service and competitive prices In short, Kroger's aim is to provide the best all-round package of food shopping available in each community in which we operate stores.

Satisfying customers begins with identifying the factors which are most important to that shopper. Kroger, in order to identify more exactly customer needs and wants, continued to interview shoppers — more than 18,000 — during 1976. *Objective:* To find out how well Kroger is serving shoppers and to pinpoint the ways in which Kroger can serve them better than competing stores . . . and thus win and keep their loyalty as customers.

Emphasis on Perishable Quality

Kroger is giving particular attention to quality of perishable products...a factor which consumer research emphasizes as of key importance to customers.

The Company long has been recognized for the superior quality of its dairy products and eggs . . . ranking as one of our major strengths in consumer research throughout Kroger's operating area.

Over the past two years, the majority of Kroger stores— in direct response to consumer wants — have been converted to loose or "bulk" presentation of fresh fruits and vegetables, along with insistence on only the top quality available in the market and greatly expanded variety.

Kroger Products Continue High in Acceptance

Kroger's own brand products have earned their popularity through the years by a combination of quality that is high and consistent, prices which make them a value, and an aggressive marketing program. During 1976, more than 300 new products or extensions of existing lines were introduced.

Manufacturing representatives work directly with supermarket merchandisers to develop effective programs of presentation to the public, keyed to the area and to the competition. In-store sampling introduces shoppers to the high quality. Once customers become acquainted with the value, they usually become repeat customers. Many families have been enjoying Kroger's own products for generations.

With Kroger private label products growing faster in popularity than overall sales growth, present processing facilities of some plants have been pushed to capacity.

Plans were announced in December for a new peanut butter manufacturing plant in Georgia, which will be completed in late 1977.

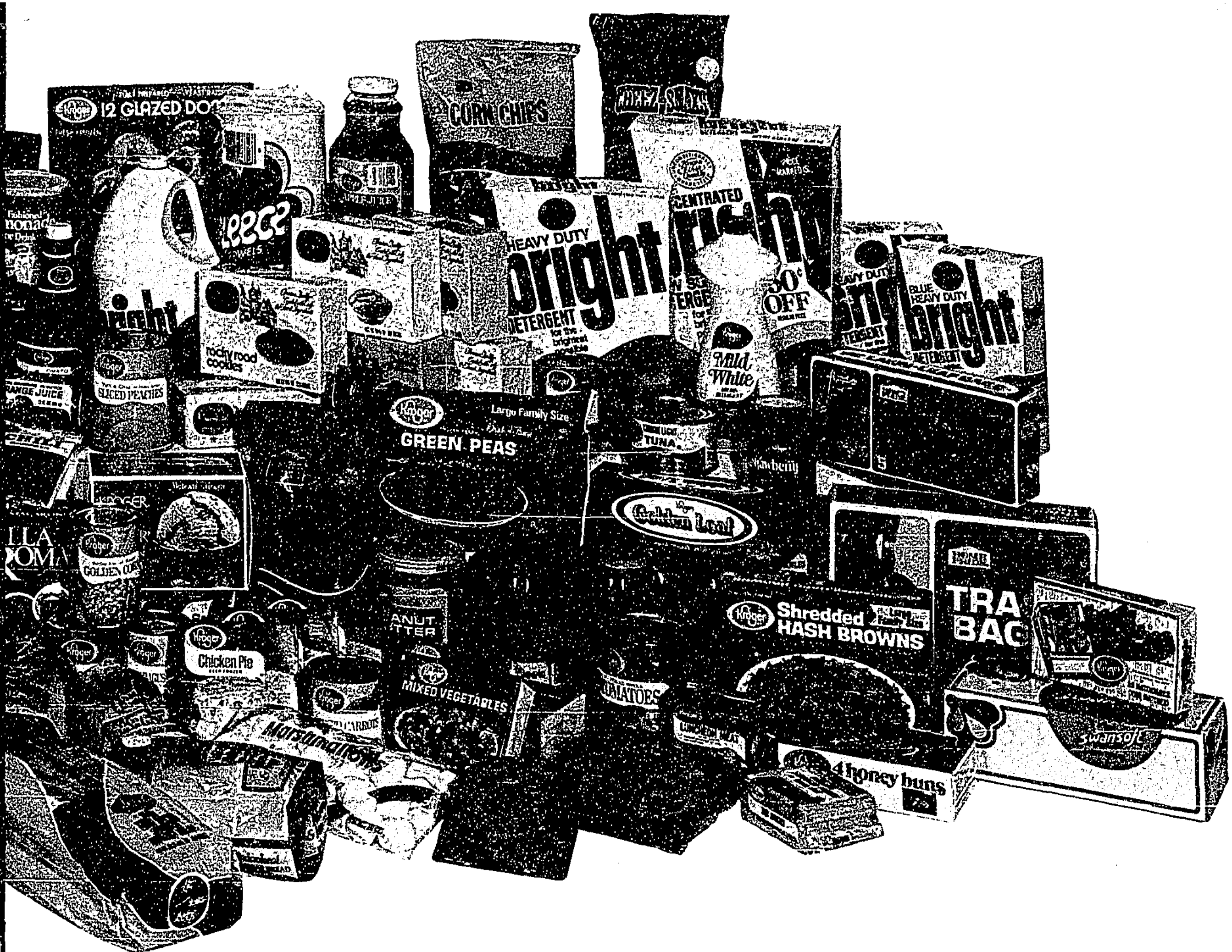
A milk processing plant is planned for a 20-acre site in Ohio. Construction will begin in April, with a target completion date set for spring of 1978.

A new egg candling room and four new egg laying houses are being built in Arkansas This facility also buys eggs from contract farmers in that area for shipment to Kroger stores. Kroger pioneered the contract concept 30 years ago of establishing egg candling rooms right in growing areas, buying directly from farmers, and rushing eggs to stores while at the peak of freshness.

The sausage plant in Springdale, Ohio, will be enlarged to enable production of smoked sausage items and a new line of dinner frankfurters.

Personal Service Popular

Personal-service departments continue to enhance Kroger's image with consumers. At the end of 1976, there were 567 delicatessen/bakery departments in operation in Kroger superstores, many offering hot carryout meals as well as the traditional cold cuts, salads and desserts In a growing number of the bakery installations, fresh bread and rolls are baked right on



the spot . . up to 100 different kinds of breads, Danish pastries and coffee cakes.

Colorful floral departments offering a range of live plants from a starter-size philodendron to a five-foot-high schefflera will be in 300 stores by the end of the year.

General merchandise — the non-food items such as greeting cards, hardware or housewares which help make Kroger a one-stop shopping center for families — account for a growing portion of grocery department sales. While offering many of these items at a lower price than traditional outlets, supermarkets also benefit from the greater markup as compared to traditional grocery items. This helps balance the "mix" of products sold in a supermarket to produce a higher level of profits while enabling the store to sell food at a lower price.

Informing the Consumer

In addition to providing high quality products, wide variety and competitive pricing to give shoppers a value, Kroger also believes that more knowledgeable shoppers are more satisfied and more loyal customers.

A number of in-store information services are provided for consumers — aimed both at helping them become wiser shoppers and, at the same time, demonstrating that Kroger offers a total value worthy of their shopping choice.

Among these services are possibly the most complete program in the country of open dating of perishable products . . . guaranteed ingredients and percentage of fat-to-lean for ground beef items . . . meat labels which use simplified names for cuts and which identify the primal cut from which the meat comes . . . listing on labels of the nutrients contained in a food . . . and unit pricing to identify at a glance which of comparable products is lowest-priced (a program which will be extended to all stores during 1977).

In many superstores, a Customer Service Manager is stationed at the front of the store to assist shoppers and to make sure that checkstand service is efficiently carried out.

In an extension of the in-store consumer information, regular "Keeping You Posted" columns are included as a part of newspaper price advertising to call attention to these services and to offer shopping tips to customers.

Special programs also are conducted — such as seminars for high school home economics teachers on produce or meat to provide them with up-to-date information to assist in teaching food shopping. In other areas, day-long seminars have been held for consumers, or supermarket classroom sessions, with chairs set up right in the store, teach "how-to-shop" directly to customers of that store.

In addition to formal consumer research, Kroger also maintains communication with consumer leaders and with shoppers. Consumer Advisory Councils in several cities — composed of shoppers representing varying viewpoints — give feedback to local management . . . providing direct input into marketing decisions.

Energy conservation is not new to Kroger. For several years the Company has worked to improve the efficiency of our use of energy and to use energy wisely to protect our nation's resources. Approximately two-thirds of Kroger stores now utilize heat reclaim systems, in which warm air generated by the refrigeration process is recycled to provide heat for the store. This is important both from the standpoint of conserving energy and in helping to control the rising cost of energy. These heat reclaim systems will be installed in remaining stores wherever feasible.

Kroger Means Better Meat

A major perishable area which is receiving special attention is the important area of meat.

Kroger was the first grocery chain in the nation back around the turn of the century to combine groceries and meats under one roof for the convenience of shoppers. Meats have traditionally been a source of Kroger pride through the years.

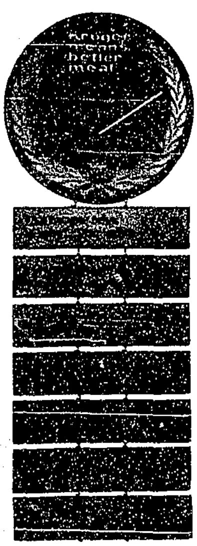
In your Kroger store today, you will see a plaque proudly displayed in the meat department . . . topped with the message: Kroger Means Better Meat. That's a promise. A promise backed by performance.

Attached to the plaque are seven add-on bars — each bearing an important quality point on which the meat department is judged (and on which customers judge Kroger meats). Each bar must be *earned* by the store through top performance before it can be displayed. And it's the shopper who benefits.

Quality and variety are basic to consumer meat satisfaction. Many shoppers throughout Krogerland are discovering for the first time the tenderness and delicate flavor of high-quality veal and lamb, heretofore largely unavailable in supermarkets. Beef and pork form the basis of Kroger's meat reputation, but now stores regularly also carry the best quality and most popular cuts of veal and lamb on a week-to-week basis. Continental-style veal, for example, is of a quality usually found only in fine European restaurants. Calves are selected for a special feeding program under controlled conditions which develops delicate meat with the best eating quality.

Another key area of improvement in 1976 was the company's conversion to U.S. Grade A, knife-cut, chill-pack frying chickens in most stores — providing customers with freshest-possible poultry which has never been frozen and which provides noticeably better flavor.

The Company has taken stands on the side of the consumer in other ways, too. When the U.S. Department of Agriculture changed grading standards for beef early in the year, Kroger refused to lower its standards. Only



beef which would have qualified for U.S.D.A. Choice Grade under the previous grading standards is accepted as U.S. Choice for sale in Kroger Food Stores.

In striving for customer recognition of the quality of Kroger meats, we determined that no chance could be taken with quality. For example, a staff of quality assurance supervisors works with our 12 meat fabricating and distribution plants, serving as an additional checkpoint to insure that not only beef but all meat products meet Kroger specifications before they go to stores.

Our stand on beef quality proved to be a wise decision. Shoppers, encouraged by consistent quality and lower prices during the past several months, returned to buying their favorite, flavorful U.S.D A. Choice Beef. While Kroger shoppers were buying substantially more meat of all kinds during the final quarter of 1976, they more than doubled their purchases of Choice Beef compared to the previous year.

A key part of the company's meat superiority program is proper training of the men and women who will be serving the public — on every aspect of the job from trim and display to courtesy and providing information to customers. Special emphasis is given to proper handling to protect product quality and proper trim to assure value. This training continues as an integral ingredient of quality meat service.

The results thus far are gratifying. In addition to the direct vote of confidence expressed by shopper purchases, current consumer research shows a substantial improvement in Kroger's quality meat rating. We're committed to making it even better.

The Kroger Employee

The Kroger employee completes the total marketing presentation to the shopper. Success depends not only on providing high quality products, effectively displayed, but also on how well Kroger is represented by the men and women in the store who work directly with customers Employees more and more are brought into direct contact with shoppers Customers in many cases judge the Company by the individual employee.

Operating a Kroger store and each of the departments within that store today requires more sophisticated decision-making and management. A second Kroger Education Center has been opened on the campus of Memphis State University to assist Kroger Marketing Areas in preparing their people for expanded management responsibilities. As is the case with the first Center in Cincinnati, the primary objective will be education in the techniques of management for

superstore managers and department heads. More than 1600 Kroger men and women were given management education during 1976 to better equip them to perform effectively as managers with expanded responsibilities.

Operating effectively today and planning for tomorrow also includes preparation for management continuity through long-range manpower planning and successor development. Regular reviews identify potential successors to each key job. With concentration on development of full potential at every level of management — and identification of non-management personnel with promotability characteristics — the opportunity for full job satisfaction at Kroger has never been greater.

Without talented and satisfied employees, progress is impossible. With them, the potential is unlimited.

SupeRx Drug Stores

During 1976, SupeRx Drug Stores underwent reorganization and restructuring, aimed toward revitalization of merchandising and increased effectiveness and efficiency of operation.

The major improvement steps which have been taken by SupeRx are beginning to show positive results. Although SupeRx operated at a loss during the first half, progress began in the third quarter and a strong finish in the fourth quarter resulted in a profitable operation for the total year.

As the company's recovery progresses, new building has been limited to allow full concentration on improvement of present stores — particularly the 222 large, new stores which were opened during the rapid expansion of the past five years. Fifteen new stores are planned for 1977. Twenty new stores were completed during 1976, and 13 stores were closed.

Particular attention has been given during the past year to tightening of operations and reorganization of merchandising approaches. Operations have been consolidated in four regions. As a result, top drug store management is now closer to the actual store operation which is the pulse of the business.

The 558 SupeRx stores in 24 states are being completely remerchandised for more effective presentation of products . . . to more closely mesh with needs of the shopper. For example, when a store carries an item category, such as hardware, the assortment will be complete . . . not token That department in effect will be a miniature hardware store providing just about every item which the average shopper expects and needs for a home project.

The overall SupeRx program is keyed toward a combination of a return to the basic principles which guided its early years and response to the changing needs dictated by consumers.

Top Value Enterprises

Both attendance and per-capita spending increased during 1976 at the two theme amusement parks operated by Family Leisure Centers, Inc., the joint venture of Top Value and Taft Broadcasting Company. Nearly three million people visited Kings Dominion, located near Richmond, Virginia, and Carowinds, near Charlotte, North Carolina, during the year, up 8% from 1975. New attractions and rides are being added in both parks in preparation for the 1977 season.

Top Value's promotional services cover premium merchandise and trading stamp, travel and promotion services for the business and financial community. Trading stamps account for more than half of Top Value's revenues. At the end of 1976, stamp services were being provided to approximately 15,000 establishments There are 227 redemption outlets, serving 32 states.

Incentive and merchandising promotion have during the past few years grown in importance to overall operations of Top Value. In addition to retailers, these services are being utilized by wholesalers, manufacturers, banks, insurance companies and other businesses for both internal and external promotions.

Travel operations conducted by T. V. Travel, Inc., showed the most significant gains of any of Top Value's areas of operation during 1976. T. V. Travel currently operates eight travel outlets located in six states and the District of Columbia, serving incentives customers offering travel as awards, as well as individual, group and commercial customers.

FINANCIAL REVIEW

Management's Analysis of Summary of Operations

The following is an analysis of the Company's operations for the years 1974, 1975 and 1976. Please refer to the Five Year Summary on page 20 for financial and other statistics.

The Company's sales increased 11.2% from 1974 to 1975, largely reflecting higher selling prices and, to a lesser extent, increased unit volume. In 1976, sales increased 14.1% over 1975. This increase was comprised almost entirely of increased unit volume due in part to the fact that 1976 included 53 weeks whereas 1975 included 52 weeks.

Net earnings of the Company in 1975 decreased from the $45,239,000 reported in 1974 to $34,441,000. Many factors contributed to this decline. The renewal of intense retail food price competition, and our determination to improve our sales position resulted in lower gross margins on sales. The earnings performance of SupeRx Drug Stores was also diminished by lower gross margins as we engaged in heavy promotional activities and more aggressive pricing in order to improve sales. The effects of the lower food and drug gross margins were partially offset by concerted and successful expense control efforts in both entities. Prior to the end of 1975, a decision was made to close 12 food stores in metropolitan Cleveland. A provision was made for the known and anticipated costs relating to the discontinuance of these stores in the amount of $1,547,000, after applicable taxes. Net earnings of Top Value declined $854,000 as compared to 1974. The further discontinuance of stamps by Kroger food stores and others was the principal cause of this decrease.

Net earnings increased 40.3% to $48,331,000 in 1976. Earnings from food operations improved principally as a result of increased sales and expense control efforts. The growing number of mature larger stores and the continued closing of smaller and unprofitable stores, including the discontinuance of operations in the Kansas City area through the closing of 22 stores, also contributed to improved food operations. Drug store earnings again declined in 1976. Pre-tax earnings for the full year were $5,005,000 despite a loss of $2,400,000 for the first half of 1976. The slow maturing of the 222 new, large drug stores opened since 1971 and increases in operating expenses, particularly employee and utility costs, materially affected 1976 drug store results. Net earnings of Top Value were $995,000 in 1976. The improvement was affected by two non-recurring items — a reduction in the liability for unredeemed trading stamps offset in part by a provision for costs relating to the closing of excess redemption facilities and other expenses resulting from the reduced level of operations of Top Value. Combined, these two non-recurring items increased Top Value's net earnings by $1,820,000 during the third quarter of 1976.

Despite the cost cutting efforts referred to above, the Company incurred significant increases in operating, general and administrative expenses during 1975 and 1976. These costs have increased due to substantially higher wage and utilities costs. Rent and depreciation for the past three years have increased as a result of the Company's store program which has emphasized larger stores and an increased number of openings. Interest on long-term debt has increased as a result of additional borrowings to finance this store program. Interest income rose substantially due to temporary investment of funds derived from improved management of working capital as well as certain funds provided by the long-term borrowings.

Dividends

Dividends of $1.38 per common share were paid in 1976 which marks the 75th consecutive year in which dividends have been paid out of current earnings. Dividends of 34¢ per share were paid in each quarter of 1975 and for each of the first three quarters of 1976. The dividend for the fourth quarter of 1976 was increased to 36¢ per share. The regular quarterly dividend of 36¢ per share payable March 1, 1977, to shareowners of record January 28, 1977, was declared on January 14, 1977.

Capital Expenditures

Capital expenditures for 1976 totaled $80,838,000 up from $69,692,000 in 1975. Expenditures in 1976 included $56,295,000 or 70% of the total for retail stores and related equipment; $10,809,000 for food processing facilities and equipment; and $11,665,000 for distribution center equipment and vehicles. Investment tax credits in 1976 amounted to 51¢ per share compared to 49¢ per share in 1975. Capital expenditures for 1977 are projected to be approximately $110,000,000, the major portion of which will continue to be spent for retail stores and related equipment. Funds needed in 1977 for the capital expenditure program will come from temporary cash investments and internally generated funds.

Quarterly Results

Sales for the 13 week fourth quarter of 1976 were $1,583,005,527, an increase of 18.5% over the 12 week fourth quarter of 1975. Earnings of $16,516,297 or $1.22 per share increased 64.9% from the 74¢ per share earned in the fourth quarter of 1975. Quarterly sales, merchandise costs (including warehousing and transportation), earnings, earnings per share and common stock price range for 1976 and 1975 were as follows:

	Sales In Millions		Merchandise Costs In Millions		Earnings In Millions		Earnings Per Share		Common Stock Price Range	
	1976	1975	**1976**	1975	**1976**	1975	**1976**	1975	**1976**	1975
1st (12 weeks) ...	**$1,322**	$1,160	**$1,044**	$ 904	**$ 8.7**	$ 8.5	**$ .65**	$ .63	**20¾-17⅝**	24 -14⅞
2nd (12 weeks) ...	**1,359**	1,194	**1,070**	934	**10.4**	8.5	**.77**	.63	**20⅛-18⅛**	23⅝-19⅛
3rd (16 weeks) ...	**1,827**	1,649	**1,440**	1,303	**12.7**	7.5	**.94**	.55	**25¼-18¾**	24⅛-19¼
4th (12 weeks) (a).	**1,583**	1,336	**1,241**	1,058	**16.5**	9.9	**1.22**	.74	**24⅞-21⅛**	21⅜-16½
	$6,091	$5,339	**$4,795**	$4,199	**$48.3**	$34.4	**$3.58**	$2.55		

(a) 13 weeks in 1976

Operating Results by Lines of Business

Sales for the 53 weeks ended January 1, 1977 were $6,091,148,822, an increase of 14.1% over the 52 weeks ended December 27, 1975. Net earnings were $48,330,946, an increase of 40.3% over 1975. Sales and earnings before extraordinary items by principal lines of business for the five years 1972 through 1976 were as follows:

	1976	1975	1974	1973	1972
Sales:		(in millions of dollars)			
Food Business	**$5,586**	$4,881	$4,413	$3,872	$3,482
Drug Stores	**505**	458	390	348	317
Total	**$6,091**	$5,339	$4,803	$4,220	$3,799
Earnings:					
Food Business	**$ 80.9**	$ 52 0	$ 64.9	$ 30.7	$ 16.0
Drug Stores	**5.0**	6 7	16.9	16.2	12.9
	$ 85.9	$ 58.7	$ 81.8	$ 46.9	$ 28.9
Taxes based on income	**39.3**	24.8	38.0	22.0	11.8
	$ 46.6	$ 33.9	$ 43.8	$ 24.9	$ 17.1
Equity in net earnings of unconsolidated companies	**1.7**	5	1.4	5.0	8 0
Earnings before extraordinary items	**$ 48.3**	$ 34 4	$ 45 2	$ 29.9	$ 25.1

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co

We have examined the consolidated balance sheets of The Kroger Co. and Consolidated Subsidiary Companies as of January 1, 1977 and December 27, 1975, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Top Value Enterprises, Inc., an unconsolidated subsidiary. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other accountants.

In our opinion, based upon our examinations and the report of other accountants, the financial statements referred to above present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at January 1, 1977 and December 27, 1975, and the consolidated results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
3800 Carew Tower
Cincinnati, Ohio 45202
February 18, 1977

Coopers & Lybrand

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended January 1, 1977 and December 27, 1975	**1976 (53 Weeks)**	1975 (52 Weeks)
Sales	**$6,091,148,822**	$5,339,224,779
Costs and Expenses:		
Merchandise costs, including warehousing and transportation	**$4,795,340,322**	$4,199,114,950
Operating, general and administrative expenses	**1,054,004,518**	935,457,124
Rent	**92,811,259**	83,282,429
Depreciation and amortization	**51,604,650**	49,549,358
Interest income	**(5,062,966)**	(2,545,367)
Interest expense on long-term debt	**16,045,108**	14,706,215
Other interest expense	**527,596**	913,330
Taxes based on income	**39,276,939**	24,787,774
Total	**$6,044,547,426**	$5,305,265,813
Earnings before equity in net earnings of unconsolidated companies	**$ 46,601,396**	$ 33,958,966
Equity in net earnings of unconsolidated companies	**1,729,550**	482,244
Net earnings	**$ 48,330,946**	$ 34,441,210
Average number of shares of common stock outstanding	**13,495,039**	13,488,034
Net earnings per share of common stock	**$ 3.58**	$ 2.55

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended January 1, 1977 and December 27, 1975	**1976**	**1975**
Accumulated earnings — Beginning of the year	**$ 356,531,837**	$ 340,388,826
Net earnings for the year	**48,330,946**	34,441,210
	$ 404,862,783	$ 374,830,036
Dividends on common stock — $1.38 per share in 1976 and $1.36 per share in 1975	**18,576,949**	18,298,199
Accumulated earnings — End of the year	**$ 386,285,834**	$ 356,531,837

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS	JAN. 1, 1977	DEC. 27, 1975
CURRENT ASSETS		
Cash	$ 24,618,884	$ 26,152,654
Short-term investments, at cost, which approximates market	116,189,713	50,881,900
Receivables	47,755,878	45,438,832
Inventories	546,378,947	485,601,604
Store and general supplies	6,619,284	5,776,160
Prepaid and other current assets	22,284,383	19,452,970
Total current assets	$ 763,847,089	$ 633,304,120
PROPERTY, PLANT AND EQUIPMENT		
Land	$ 14,660,082	$ 16,523,119
Buildings	78,169,749	87,709,269
Equipment	452,856,874	424,046,172
Leaseholds and leasehold improvements	157,790,336	153,739,891
	$ 703,477,041	$ 682,018,451
Allowance for depreciation and amortization	288,244,864	271,569,056
Property, plant and equipment, net	$ 415,232,177	$ 410,449,395
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated companies	$ 35,400,685	$ 21,651,950
Other investments, at cost, and other assets	1,536,775	1,388,504
Excess of cost of investments in consolidated subsidiaries over equities in net assets	17,805,858	17,945,754
Total investments and other assets	$ 54,743,318	$ 40,986,208
Total Assets	**$1,233,822,584**	$1,084,739,723

LIABILITIES

	JAN. 1, 1977	DEC. 27, 1975
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 4,281,265**	$ 2,385,846
Accounts payable	**269,853,133**	246,868,992
Accrued expenses	**137,364,896**	117,530,974
Accrued federal income and other taxes	**36,443,344**	22,610,930
Total current liabilities	**$ 447,942,638**	$ 389,396,742
OTHER LIABILITIES		
Long-term debt	**$ 223,082,894**	$ 171,584,046
Deferred federal income taxes	**72,400,000**	63,655,000
Employees' benefit fund	**32,602,251**	34,267,251
Total other liabilities	**$ 328,085,145**	$ 269,506,297
Total Liabilities	**$ 776,027,783**	$ 658,903,039

SHAREOWNERS' EQUITY

Common capital stock, par $1, at stated value		
Authorized: 18,000,000 shares		
Issued: 1976 — 13,763,206; 1975 — 13,745,803	**$ 88,921,833**	$ 88,621,758
Accumulated earnings	**386,285,834**	356,531,837
	$ 475,207,667	$ 445,153,595
Common stock in treasury, at cost — 256,673 shares	**8,761,434**	8,761,434
Net unrealized loss on marketable equity securities of unconsolidated company	**8,651,432**	10,555,477
Total Shareowners' Equity	**$ 457,794,801**	$ 425,836,684
Total Liabilities and Shareowners' Equity	**$1,233,822,584**	$1,084,739,723

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended January 1, 1977 and December 27, 1975	**1976 (53 Weeks)**	1975 (52 Weeks)
SOURCES OF WORKING CAPITAL		
From operations:		
Net earnings	**$ 48,330,946**	$ 34,441,210
Charges (credits) to earnings not involving funds:		
Depreciation and amortization	**51,604,650**	49,549,358
Provision for deferred federal income taxes	**8,745,000**	5,430,000
Equity in net earnings of unconsolidated companies	**(1,729,550)**	(482,244)
Total from operations	**$106,951,046**	$ 88,938,324
Capital stock issued under option plans	**300,075**	40,868
Additions to long-term debt	**56,465,958**	52,640,108
Sale of capital assets subsequently leased back	**9,100,000**	
Net book value of capital asset disposals	**14,821,515**	11,889,777
Other changes, net	**405,596**	260,862
Total sources	**$188,044,190**	$153,769,939
USES OF WORKING CAPITAL		
Capital expenditures	**$ 80,838,058**	$ 69,692,481
Dividends paid	**18,576,949**	18,298,199
Advance to unconsolidated company	**10,000,000**	2,500,000
Reductions of long-term debt	**4,967,110**	4,881,384
Employees' benefit fund payments, net of provision	**1,665,000**	1,613,174
Total uses	**$116,047,117**	$ 96,985,238
Net increase in working capital	**$ 71,997,073**	$ 56,784,701

ANALYSIS OF WORKING CAPITAL CHANGES

	Increase (Decrease)	
Current asset changes:		
Cash and short-term investments	**$ 63,774,043**	$ 25,428,242
Inventories	**60,777,343**	14,570,339
Other current assets	**5,991,583**	484,233
Net increase in current assets	**$130,542,969**	$ 40,482,814
Current liability changes:		
Current portion of long-term debt	**$ 1,895,419**	$(24,124,154)
Accounts payable	**22,984,141**	10,288,004
Accrued expenses and taxes	**33,666,336**	(2,465,737)
Net increase (decrease) in current liabilities	**$ 58,545,896**	$(16,301,887)
Net increase in working capital	**$ 71,997,073**	$ 56,784,701

The accompanying notes are an integral part of the financial statements.

ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied.

Principles of Consolidation

The consolidated financial statements include the Company and all of its subsidiaries except Top Value Enterprises, Inc. and certain partially-owned affiliated companies, all of which are included in the financial statements on the equity basis.

Inventories

The inventories are valued at the lower of cost or market with cost determined on the retail and first-in, first-out methods.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis. All maintenance and repairs are charged to earnings Betterments and renewals which increase the value or productive capacity of assets are capitalized

Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition originating prior to November, 1970 is not being amortized because, in the opinion of management, there has been no decrease in value Amounts arising after October, 1970 are not significant and are being amortized on the straight-line basis over forty years.

Deferred Federal Income Taxes and Investment Tax Credit

Deferred federal income taxes include the amount of tax applicable to the excess of depreciation for tax purposes over depreciation used for financial reporting purposes and the amount of tax applicable to the change in 1973 from the LIFO (last-in, first-out) to the FIFO (first-in, first-out) method of inventory valuation less the amount of tax applicable to the excess of the pension expense (related to the unfunded pension liability) for financial reporting purposes over the pension expense for tax purposes.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

PENSION PLANS

The Company has two noncontributory retirement plans for eligible employees, one of which has historically been funded and the other unfunded. The Company also contributes to multi-employer plans jointly administered by management and union representatives.

The actuarially computed value of vested benefits for the Company administered plans as of January 1, 1977 exceeded the total of the pension funds and balance sheet accruals by approximately $47,634,000. Past service costs for the Company's plans are being amortized over forty years.

The total pension expense for all plans for 1976 and 1975 was $42,733,204 and $33,707,503, respectively. As a result of the Employee Retirement Income Security Act, revisions were made to both Company plans effective January 1, 1976, including funding (over a period of forty years) of the previously unfunded plan. These revisions had no significant impact on the financial statements of the Company.

LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. The Company's lease arrangements have been classified as either noncapitalized finance leases or operating leases for purposes of this disclosure in accordance with the requirements of the Securities and Exchange Commission.

Rent expense on all leases consists of:

1976	Finance Leases	Operating Leases	Total
Minimum rentals, net of minor sublease rentals	$22,225,579	$63,785,696	$86,011,275
Contingent rental payments	839,041	5,960,943	6,799,984
Total	$23,064,620	$69,746,639	$92,811,259
1975			
Minimum rentals, net of minor sublease rentals	$19,005,498	$58,747,539	$77,753,037
Contingent rental payments	782,428	4,746,964	5,529,392
Total	$19,787,926	$63,494,503	$83,282,429

Certain of the leases provide for contingent rental based upon a percent of sales.

Aggregate minimum annual rentals, net of subleased rentals which are minor in amount, for leases in effect at January 1, 1977 are as follows:

	Finance Leases	Operating Leases	Total
1977	$ 23,876,000	$ 59,967,000	$ 83,843,000
1978	23,790,000	56,369,000	80,159,000
1979	23,746,000	53,042,000	76,788,000
1980	23,349,000	50,377,000	73,726,000
1981	22,958,000	47,137,000	70,095,000
1982-1986	109,835,000	206,810,000	316,645,000
1987-1991	96,981,000	156,113,000	253,094,000
1992-1996	66,704,000	66,243,000	132,947,000
1997 and thereafter	35,815,000	-0-	35,815,000
	$427,054,000	$696,058,000	$1,123,112,000

The present value of all future payments on noncapitalized finance leases at January 1, 1977 and December 27, 1975 on real property amounted to $193,328,000 and $161,354,000, respectively. Interest rates used in the present value computation ranged from 4.5%-11.5% and the weighted average interest rates used were 8.5% and 7 7% for 1976 and 1975, respectively.

If the property rights associated with all noncapitalized finance leases were capitalized, the effect on net earnings for the years ended January 1, 1977 and December 27, 1975 would have been as follows:

	1976	1975
Rental payments, net of related taxes and insurance	$ 20,880,000	$ 18,036,000
Amortization of property rights on a straight-line basis	(9,764,000)	(8,928,000)
Interest expense	(14,681,000)	(12,096,000)
	$(3,565,000)	$(2,988,000)
Taxes based on income	1,824,000	1,545,000
Decrease in net earnings	$(1,741,000)	$(1,443,000)

UNCONSOLIDATED COMPANIES

The Company's equity in the net earnings of unconsolidated companies includes the net earnings (loss) of Top Value Enterprises, Inc in the amount of $995,016 for 1976 and $(21,860) for 1975. Net earnings for 1976 includes an adjustment of $3,900,000, or 29¢ per share of The Kroger Co. common stock, resulting from a reduction in Top Value's liability for unredeemed trading stamps based upon a recent statistical study of its stamp redemption experience Top Value also incurred costs of $2,080,000, or 15¢ per share of The Kroger Co. common stock, related to the closing of excess redemption facilities and other expenses resulting from its reduced level of operations due to the discontinuance of trading stamps by the Company and other customers

A condensed balance sheet of Top Value Enterprises, Inc. is as follows (in thousands of dollars)

Assets	1976	1975
Marketable securities:		
Equity securities	$ 29,667	$ 31,814
Bonds and notes, at cost (approximate market value $20,983 in 1976 and $9,944 in 1975)	23,060	13,060
	$ 52,727	$ 44,874
Investment in Family Leisure Centers, Inc. and other	27,769	27,640
Inventories and accounts receivable	25,767	27,674
Other	23,013	24,148
	$129,276	$124,336

Liabilities and Shareowner's Equity	1976	1975
Unredeemed trading stamps and other liabilities	$ 78,805	$ 87,710
Short-term notes payable	8,900	8,000
Installment note payable	11,000	11,000
Advance from parent company	12,500	2,500
Shareowner's equity (reduced by net unrealized loss on marketable equity securities of $8,651 in 1976 and $10,555 in 1975)	18,071	15,126
	$129,276	$124,336

Marketable equity securities (common and preferred stock) are carried at the lower of cost or market. A valuation allowance for the excess of cost over market of these equity securities is included in shareowners' equity in the amount of $10,555,477 (net of related tax effect of $4,523,775) at year-end 1975 and was reduced to $8,651,432 (net of related tax effect of $2,336,174) at year-end 1976. The portfolio of equity securities included gross unrealized gains and losses of $958,384 and $11,945,990, respectively at January 1, 1977. In management's opinion there is no indication of a permanent loss in value and there is no intent to liquidate the securities portfolio at less than cost.

Net realized gains on the sale of securities, after applicable taxes, included in the determination of net earnings for 1976 and 1975 amounted to $581,526 and $320,472, respectively. The cost of marketable securities sold is determined on the specific issue method.

Marketable securities with a market value of $35,868,000 were pledged at 1976 year-end as described below. Certain of these securities collateralize Top Value's short-term notes payable of $8,900,000 and its installment note payable of $11,000,000. Top Value owns 50% of Family Leisure Centers, Inc. (FLC), a corporate joint venture, which is engaged in the construction and operation of amusement parks. Top Value has guaranteed $16,000,000 of loans to FLC and has pledged marketable securities for its guarantee of $9,000,000 of such loans The Kroger Co is co-guarantor with Top Value of $7,000,000 of these loans to FLC.

Investments in and advances to unconsolidated companies at January 1, 1977 include:

Top Value Enterprises, Inc, at cost plus share of undistributed earnings since acquisition (marketable equity securities carried at market)	$32,164,044
Other partially-owned affiliated companies, at cost plus share of undistributed earnings since acquisition	3,236,641
	$35,400,685

DEBT OBLIGATIONS

Long-term debt at January 1, 1977 included:

9⅞% notes maturing in 1983	$ 50,000,000
9% sinking fund debentures maturing in 1995; with annual payments of $2,500,000 required from 1977 through 1995	46,787,000
8.70% sinking fund debentures maturing in 1998; with annual payments of $3,000,000 required from 1979 through 1998	60,000,000
8½% sinking fund debentures maturing in 2001, with annual payments of $2,500,000 required from 1982 through 2001	50,000,000
5% to 11% notes; annual payments due in varying amounts through 1996	20,577,159
	$227,364,159
Less amount due within one year	4,281,265
	$223,082,894

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $80,054,072 at January 1, 1977.

Short-term borrowings of the Company averaged $4,133,423 and ranged up to $18,700,000 during 1976 at a weighted average annual interest cost of 7.5%.

TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	1976	1975
Federal		
Current	$22,330,000	$12,625,000
Deferred	8,745,000	5,430,000
	$31,075,000	$18,055,000
State and Local		
Current	8,201,939	6,732,774
Total	$39,276,939	$24,787,774

The provision for taxes based on income is lower than the normal statutory corporate tax rate principally due to investment tax credits which reduced the tax provision by $6,937,000 in 1976 and $6,657,000 in 1975.

The Company follows the practice of reinvesting permanently the earnings of subsidiaries in order to meet the requirements of the business and, therefore, has not considered any additional tax provision to be appropriate. Undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax because of current income tax laws, are not material in amount.

COMMON STOCK

Changes in common stock during 1975 and 1976 were as follows.

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Balance, Dec 28, 1974	13,743,280	$88,580,890	256,673	$8,761,434
Exercise of options	2,523	40,868		
Balance, Dec. 27, 1975	13,745,803	$88,621,758	256,673	$8,761,434
Exercise of options	17,403	300,075		
Balance, Jan. 1, 1977	13,763,206	$88,921,833	256,673	$8,761,434

PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at January 1, 1977.

STOCK OPTION PLANS

During the year, shareowners approved the 1976 Stock Option Plan which authorized a maximum issuance of 500,000 shares

At January 1, 1977, options were outstanding to purchase 584,203 shares of common stock under the 1965, 1969 and 1976 Stock Option Plans (of which options on 299,169 shares were exercisable at that date) at prices ranging from $15.56 to $24.00 a share. Each option outstanding was granted at an option price equal to the fair market value of the stock at the date of grant. Options may be granted under the 1969 and 1976 Plans until 1979 and 1986, respectively. No further options may be granted under the 1965 Plan. At January 1, 1977, shares of common stock available for future options under the 1969 and 1976 Plans amounted to 16,086 shares and 303,200 shares, respectively.

Changes during 1976 in options outstanding under the Stock Option Plans of the Company were as follows:

	Shares Subject To Option	Option Price Range Per Share
Outstanding December 27, 1975	419,886	$15 56 - $26.75
Granted	207,300	$19.13 - $24 00
Exercised	(17,403)	$15.56 - $23.63
Cancelled or expired	(25,580)	$15.56 - $26.75
Outstanding January 1, 1977	584,203	$15 56 - $24.00

LITIGATION

There are pending against the Company various claims and lawsuits arising in the normal course of business including, as of January 1, 1977, suits charging violations of certain antitrust and civil rights laws Some of these suits purport or have been determined to be class actions and/or seek damages in very large amounts. Any damages that may be awarded in antitrust cases will be automatically trebled.

Nine antitrust suits alleging, among other things, price-fixing in the purchase and sale of meat, have been consolidated for pretrial and discovery purposes in the United States District Court in Dallas Since these suits have not progressed beyond the earliest stages of discovery, and since each of them may go to a jury, the Company cannot predict their ultimate outcome. The Company believes, however, that it has substantial defenses available and should prevail in all.

Although the amount of liability at January 1, 1977 with respect to all claims and lawsuits cannot be ascertained, the Company is of the opinion that any resulting liability will not have a material effect upon the Company's financial position.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly sales, merchandise costs, net earnings and net earnings per share of common stock for 1976 are presented on page 11.

REPLACEMENT COST (UNAUDITED)

As required by the Securities and Exchange Commission, current replacement cost information for certain assets and certain costs and expenses is to be disclosed in the Company's Form 10-K filed with the Commission.

The current replacement cost of the Company's affected inventories and productive capacity and the amount of the associated merchandise costs and depreciation expense calculated using replacement costs are generally higher than the comparable historical cost amounts shown in the financial statements.

FIVE YEAR SUMMARY

OPERATIONS *(thousands of dollars, except per share figures)*	**1976**	1975	1974	1973	1972
Sales	**$ 6,091,149**	5,339,225	4,803,032	4,219,753	3,799,019
Costs and Expenses, excluding Taxes Based on Income	**$ 6,005,271**	5,280,478	4,721,195	4,172,837	3,770,137
Taxes Based on Income	**$ 39,277**	24,788	38,029	22,004	11,762
Equity in Net Earnings of Unconsolidated Companies	**$ 1,730**	482	1,431	5,004	8,007
Earnings Before Extraordinary Items	**$ 48,331**	34,441	45,239	29,916	25,127(a)
Net Earnings	**$ 48,331**	34,441	45,239	29,916	20,373
Dividends	**$ 18,577**	18,298	18,088	17,461	17,407
Per Share					
Earnings Before Extraordinary Items	**$ 3.58**	2.55	3.36	2.22	1.87(a)
Net Earnings	**$ 3.58**	2.55	3.36	2.22	1.51
Dividends	**$ 1.38**	1.36	1.34½	1.30	1.30

BALANCE SHEET STATISTICS *(thousands of dollars, except per share figures)*	**1976**	1975	1974	1973	1972
Inventories	**$ 546,379**	485,602	471,031	413,424	358,038
Working Capital	**$ 315,904**	243,907	187,123	245,867	178,743
Property, Plant and Equipment, net	**$ 415,232**	410,449	401,547	334,873	332,065
Total Assets	**$ 1,233,823**	1,084,740	1,043,838	962,397	873,577
Long-Term Debt	**$ 223,083**	171,584	123,825	151,471	94,017
Shareowners' Equity	**$ 457,795**	425,837	420,208	392,852	380,041
Per Share of Common	**$ 33.89**	31.57	31.16	29.15	28.24

OTHER STATISTICS *(dollars and shares in thousands)*	**1976**	1975	1974	1973	1972
Capital Expenditures	**$ 80,838**	69,692	115,899	68,896	55,335
Depreciation and Amortization	**$ 51,605**	49,549	43,893	41,537	38,910
Rent	**$ 92,811**	83,282	74,487	66,019	60,114
Interest Expense	**$ 16,573**	15,620	14,116	12,199	8,921
Interest Income	**$ 5,063**	2,545	2,882	1,383	706
Common Shares Outstanding	**13,507**	13,489	13,487	13,477	13,455
Number of Shareowners	**42,508**	44,941	45,766	46,436	44,893

RETAIL FACILITIES *(areas in thousands of square feet)*	**1976**	1975	1974	1973	1972
Supermarkets					
Opened	**90**	71	83	80	59
Remodeled	**33**	40	84	68	57
Closed	**137**	92	127	160	126
Stores — End of Year	**1,173**	1,220	1,241	1,285	1,365
Total Area	**26,850**	26,415	25,594	24,706	24,896
Drug Stores					
Opened	**20**	56	64	36	46
Closed	**13**	27	35	19	28
Stores — End of Year	**558**	551	522	493	476
Total Area	**6,399**	6,234	5,633	4,883	4,525

(a) Represents earnings before extraordinary loss of $5,340,920 or $ 40 per share arising from discontinuance of Family Center operations and credit of $586,877 or $ 04 per share resulting from a change in the method of applying an accounting principle.

The Kroger Co.

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RUDOLPH P. GALLAT, *Corporate Economist*
LORRENCE T KELLAR, *Capital Management*
C MANLY MOLPUS, *Public Affairs*
RICHARD D SCHILL, *Kroger Sav-On*

KROGER FOOD STORES

Headquarters Staff

RICHARD L BERE, *Produce Merchandising*
ROBERT L COTTRELL, *Store Operation Services*
BOBBIE L CRISWELL, *Distribution Operations*
F LELAND DAVIS, *Advertising*
JACK G HUDSON, *Controller*
THADDEUS J KACZMAROWSKI, *Facility Engineering*
ADRIAN L VANNICE, *Grocery Merchandising*
WALTER W WHITE, *Distribution Administration*

Retail Operations

DONALD J BERENS, *Nashville Operations*
NEWTON W BRIGGS, *Dallas Marketing Area*
DAVID A BURT, *Michigan Marketing Area*
RONALD G DAUGHERTY, *Indianapolis Operations*
WALTER R. DRYDEN, *Columbus Marketing Area*
THEODORE ENGEL, *Central Marketing Area*
ROBERT G EVERINGHAM, *Houston Marketing Area*
ROBERT L HAYDEN, *Market Basket Marketing Area*
JAMES A LeROY, *Delta Marketing Area*
NERVILLE A SAWALL, *Gateway Marketing Area*
EDWIN A SIEVEKING, *Erie Marketing Area*
CHARLES L THOMAS, JR , *Southland Marketing Area*
CHARLES W WHITE, *Louisville Marketing Area*

KROGER FOOD PROCESSING

STUART M BERMAN, *Baked Foods Division*
FERD M KISRO, *Poultry and Egg Division*
GEORGE M LAUGHLIN, *Grocery Products Division*
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